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ATTACHMENT B

U.S. to Take Radical Path On Japan Trade

It Will Press Tokyo to Alter Economic Policy to Spur Buying of Foreign Goods

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WASHINGTON—The Reagan administration has decided to take a radical new approach in dealing with Japan over trade problems, officials said.

U.S. policy makers say the administration will de-emphasize lengthy negotiations meant to get the Japanese to open markets for specific U.S. goods such as beef or citrus products. Instead, the U.S. will begin pressing Tokyo to alter some fundamental economic policies to encourage more purchases of all foreign products.

In particular, the U.S. will seek sweeping changes in Japan's domestic policies to encourage more consumption and to reduce incentives for saving. Most analysts say the differences between Japan and the U.S. in these areas is a major reason for the $50 billion trade imbalance between the two countries.

Under the new approach, the U.S. will ask Tokyo to spur economic growth at home, possibly by cutting domestic taxes and boosting domestic wages, which are considered low given the country's high productivity. The U.S. also will ask Tokyo to make becoming a major importer of manufactured goods a national goal, in the same way it strove to become a major exporter in the late 1960s and 1970s.

Yeutter's Strategy

The new strategy was developed by U.S. Trade Representative Clayton Yeutter with help from other trade policy agencies. It has been approved unanimously by the cabinet-level Economic Policy Council headed by Treasury Secretary James Baker, and is expected to be the thrust of a major U.S. trade push during the next several months. U.S. officials say if the effort is successful, it could cause significant change in U.S.-Japanese trade patterns during the next several years.

Japanese officials welcomed the reports, although they cautioned that they haven't any official confirmation of such a policy shift.

"It is a move in the right direction," said one Japanese official. "We agree that we have to make some changes on the macroeconomic side. But the changes shouldn't be one-sided—the U.S. needs to make some changes too, notably in its budget deficit."

A U.S. industry representative said that such a policy shift isn't likely to produce results anytime soon. John Stern, who heads the Tokyo office of the American Electronics Association, said, "In the long run it will be good for American companies. But I don't see it as creating a significant number of sales opportunities for a wide block of U.S. industry."

One U.S. official, speaking privately, was sharply critical. "This is just a return to a Carter administration policy that failed," this official said. He said the shift marks an effort to downplay trade conflict before the May summit of Western leaders and the fall congressional elections. "This is really a victory for the Japanese," this official said, "because they can just sit around now, study the situation and not do anything."

Tokyo has resisted such proposals in the past, but a high-level commission established this past fall by Prime Minister Yasuhiro Nakasone to review the country's trade problems is investigating ways to make the country less dependent on exports. The panel is expected to propose at least some of the same changes sought by the Reagan administration. If it makes firm recommendations when it issues its formal report around April 7, the U.S. will seek to build on them, administration officials say.

Administration strategists say they decided to seek a new approach after it became apparent that the traditional negotiations on individual products or categories weren't producing rapid results. That is partly because, contrary to popular perceptions, Japan has relatively few formal barriers to foreign imports. Instead, the country's reluctance to buy foreign products stems more from internal cultural preferences and business ties, and from its high savings and relatively low wages and consumption levels.

It isn't clear yet whether President Reagan will personally broach the idea to Mr. Nakasone when the Japanese prime minister visits Washington April 12-14. Ostensibly, Mr. Nakasone is coming to confer with Mr. Reagan on the agenda for the annual seven-nation economic summit conference, which will be held this year in Tokyo, May 2-4. The president generally has avoided any confrontations during conversations with Mr. Nakasone, partly out of personal friendship and because Japan is an important political ally.

Cutting the Dollar

The recent U.S.-engineered move to reduce the dollar's value against the Japanese yen through intervention in the foreign-exchange markets has eased protectionist pressures in the U.S. But it isn't expected to reap more than modest gains for U.S. exporters, partly because of Japanese reluctance to buy foreign goods. Economists say narrowing the gap between U.S. and Japanese consumption and savings patterns would do far more than intervention to alter both the exchange rate and trade imbalance between the two countries.

But U.S. officials say Washington will have to play its hand quietly to avoid seeming to interfere in Japan's domestic affairs. As a result, the U.S. isn't planning to ask Tokyo to set numerical goals for increasing Japanese purchases of imported products. Nor will it push the Japanese government for specific policy changes. But if the Japanese ask for specific suggestions, the U.S. will be glad to provide them, an administration strategist said.